

Message Text

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SUBJECT: ENERGY: NEW DOMESTIC PRICE SET FOR NATURAL GAS

POUCHED TO ALL CONSULS IN CANADA

1. DEPARTMENT OF ENERGY, MINES AND RESOURCES ISSUED THE FOLLOWING NEWS RELEASE ON OCTOBER 20:
BEGIN TEXT. ENERGY MINISTER ALASTAIR GILLESPIE ANNOUNCED TODAY THE SIGNING OF AN AGREEMENT BETWEEN THE GOVERNMENTS OF CANADA AND ALBERTA ON THE PRICING OF NATURAL GAS.

THE MINISTER NOTED THAT THERE WERE TWO BASIC ELEMENTS TO THIS AGREEMENT- ONE CONCERNING THE PRICE OF GAS IN CANADA, AND THE OTHER THE DISTRIBUTION OF EXTRA REVENUE FROM GAS SOLD AT THE HIGHER EXPORT PRICE.

THE GAS PRICE IN CANADA BETWEEN NOVEMBER 1, 1975, AND JUNE 30, 1976, WILL BE GOVERNED BY THE WHOLESALE PRICE OR "CITY GATE" PRICE AT TORONTO, WHICH HAS BEEN FIXED AT \$1.25 PER MILLION BTUS. TO ARRIVE AT PRICES OF ALBERTA GAS ELSEWHERE IN CANADA (OUTSIDE OF ALBERTA), THE PREVAILING COST OF
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TRANSPORTATION FROM THE ALBERTA BORDER TO TORONTO WILL

BE SUBTRACTED FROM THE ABOVE NOTED FIXED PRICE, AND THE COST OF TRANSPORTATION FROM ATHE ALBERTA BORDER TO THE LOCALITY IN QUESTION WILL BE ADDED. FOR EXAMPLE, THE WHOLESALE PRICE IN WINNIPEG WILL BE COMPUTED AS FOLLOWS: \$1.25 MINUS TRANSPORTATION COSTS FROM ALBERTA TO TORONTO PLUS TRANSPORTATION COSTS FROM ALBERTA TO WINNIPEG.

IF TRANSPORTATION TARIFFS SHOULD CHANGE DURING THE EIGHT MONTHS COVERED BY THE AGREEMENT THE PRICE OBTAINED BY THE ALBERTA GAS PRODUCERS WOULD CHANGE ACCORDINGLY. TARIFF CHANGES MUST BE APPROVED BY THE NATIONAL ENERGY BOARD.

THE AGREEMENT REACHED BY THE TWO GOVERNMENTS OVERRIDES AN ARTBITRATION AWARD OF LAS SPRING THAT WOULD HAVE GIVEN ALBERTA GAS PRODUCERS \$1.15 PER MILLION BTUS AT THE WELLHEAD. THIS WOULD HAVE RESULTED IN A CITY GATE TORONTO PRICE OF APPROXIMATELY \$1.70. BOTH GOVERNMENTS BELIEVE THAT SUCH A PRICE WOULD REPRESENT TOO RAPID A PRICE INCREASE IN THE CONSUMER PROVINCES. THE FEDERAL GOVERNMENT HAS ALSO LET IT BE KNOWN THAT IT WISHES TO SEE NATURAL GAS PRICED IN THE TORONTO MARKET AT A BTU RATE EQUIVALENT TO THAT OF CRUDE OIL. THE AGREEMENT ANNOUNCED TODAY FIXES THE PRICE OF NATURAL GAS AT ABOUT 85 PERCENT OF THAT OF CRUDE OIL OVER THE NEXT EIGHT MONTHS.

THE TWO GOVERNMENTS HAVE ALSO AGREED ON HOW THE ADDED REVENUES AVAILABLE FROM THE HIGHER EXPORT PRICE FOR GAS SHOULD BE MADE AVAILABLE TO PRODUCERS IN ALBERTA. UNDER THE FEDERAL PETROLEUM ADMINISTRATION ACT THESE REVENUES WOULD HAVE BEEN DISTRIBUTED TO ALL ALBERTA PRODUCERS SERVING INTERNATIONAL AND INTER-PROVINCIAL MARKETS RATHER THAN GOING SOLELY TO THE EXPORT PRODUCERS. BOTH GOVERNMENTS HOWEVER ALSO WISHED TO SEE PRODUCERS WHO SERVE ONLY THE ALBERTA MARKET PARTICIPATE IN THE REVENUE FLOWBACK. UNDER THE AGREEMENT NOW CONCLUDED, AND THE PROPOSED ALBERTA LEGISLATION REFERRED TO IN THE LETTER ATTACHED TO THIS UNCLASSIFIED

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STATEMENT, THE ALBERTA GOVERNMENT OR ITS AGENCY WILL RECEIVE THE ADDITIONAL REVENUES AND DISTRIBUTE THEM TO ALBERTA PRODUCERS, THEREBY MEETING THIS OBJECTIVE.

THE FEDERAL AND PROVINCIAL GOVERNMENTS WILL MEET AGAIN IN THE NEW YEAR TO DISCUSS WHAT CHANGE, IF ANY, SHOULD BE MADE IN THE CURRENT WELLHEAD PRICE OF \$8 PER BARREL FOR CANADIAN CRUDE. THEY WILL ALSO

REVIEW THE RELATIONSHIP BETWEEN THE PRICES OF CRUDE
OIL AND NATURAL GAS AND THE RATE AT WHICH NATURAL
GAS PRICES SHOULD APPROACH THOSE OF CRUDE OIL AT
TORONTO. END TEXT.

2. CORRESPONDENCE BETWEEN GOC AND GOVERNMENT OF ALBERTA
REFERRED TO IN PENULTIMATE PARAGRAPH OF NEWS RELEASE
IS BEING AIR POUCHED.
PORTER

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